

Northville Public Schools

Financial Report
with Supplemental Information
June 30, 2007

Northville Public Schools

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Independent Auditor's Report

To the Board of Education
Northville Public Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northville Public Schools (the "School District") as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Northville Public Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Northville Public Schools as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Education
Northville Public Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Northville Public Schools' basic financial statements. The accompanying required supplemental information and other supplemental information, as identified in the table of contents, are not a required part of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board; the other supplemental information is presented for the purpose of additional analysis. The required supplemental information and the other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2007 on our consideration of Northville Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moreau, PLLC

September 7, 2007

Northville Public Schools

Management's Discussion and Analysis

This section of the 2007 annual financial report of Northville Public Schools (the "School District") presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2007. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Northville Public Schools financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund, Special Education Center Fund, and 2004 Building and Site Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for Major Funds

Other Supplemental Information

Reporting the School District as a Whole - District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Northville Public Schools

Management's Discussion and Analysis (Continued)

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, early childhood development, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Services and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money, such as the 2004 bond issue, which funded construction for voter-approved capital projects. The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliations on pages 13 and 15.

Northville Public Schools

Management's Discussion and Analysis (Continued)

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds and its trust funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

The statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2007 and 2006:

TABLE I	Governmental Activities	
	2007	2006
	(in millions)	
Assets		
Current and other assets	\$ 27.0	\$ 31.2
Capital assets	115.5	110.2
Total assets	142.5	141.4
Liabilities		
Current liabilities	25.9	21.0
Long-term liabilities	95.0	102.4
Total liabilities	120.9	123.4
Net Assets		
Invested in property and equipment - Net of related debt	19.3	16.1
Restricted	1.3	1.2
Unrestricted	1.0	0.7
Total net assets	<u>\$ 21.6</u>	<u>\$ 18.0</u>

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$21.6 million and \$18.0 million at June 30, 2007 and 2006, respectively. Capital assets, net of related debt totaling \$19.3 million, compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$1.0 million) was unrestricted.

Northville Public Schools

Management's Discussion and Analysis (Continued)

The \$1.0 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years 2007 and 2006.

TABLE 2

	Governmental Activities	
	2007	2006
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 4.7	\$ 4.6
Operating grants	17.0	17.1
General revenue:		
Property taxes	20.8	20.4
State foundation allowance	48.0	46.3
Other	1.2	1.2
Total revenue	91.7	89.6
Functions/Program Expenses		
Instruction	48.3	47.0
Support services	30.1	30.1
Community services	2.2	2.1
Food services	2.5	2.5
Athletics	0.8	0.8
Interest on long-term debt	4.2	5.3
Total functions/program expenses	88.1	87.8
Increase in Net Assets	\$ 3.6	\$ 1.8

As reported in the statement of activities, the cost of all of our governmental activities this year was \$88.1 million. Certain activities were partially funded from those who benefited from the programs (\$4.7 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$17.0 million). The School District paid for the remaining "public benefit" portion of our governmental activities with \$20.8 million in taxes, \$48.0 million in state foundation allowance, and with our other revenues, i.e., interest and general entitlements. The School District experienced an increase in net assets of \$3.6 million.

Northville Public Schools

Management's Discussion and Analysis (Continued)

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

The School District's Funds

As noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$8.7 million, which is a decrease of \$8.8 million from last year. The primary reason for the decrease was the usage of funds from the 2004 building and site bonds.

In the General Fund, our principal operating fund, the fund balance increased \$360,000 to \$3.2 million. The change is mainly due to a reduction of costs in basic programs to set aside monies for a possible teacher contract settlement (not currently settled) and lower benefit costs than expected.

General Fund fund balance is available to fund costs related to allowable school operating purposes.

Our Special Education Center Program Fund remained stable from the prior years, showing minimal net decrease.

The 2004 Capital Projects Fund fund balance decreased as the School District continued construction related to the 2004 bond issue. The construction project is estimated to be approximately 92 percent complete at June 30, 2007.

The other nonmajor funds increased by approximately \$192,000. Combined, the Debt Service Funds showed a fund balance increase of approximately \$256,000. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

Northville Public Schools

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted in June 2007. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

There were several revisions made to the 2006-2007 General Fund original budget. Revenues were increased primarily to reflect the final allocation of federal funds, an increased reimbursement of special education aides, and reimbursement related to special education indirect costs. On the expense side, there were increases in federal programs (to match grant revenues), copy costs, and transportation salary and benefits. There were decreases in custodial salaries and operations supplies and services. These changes overall increased revenue by \$0.7 million and expense by \$0.85 million in the General Fund. See Note 2 in the notes to the financial statements for further explanation of these variances.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2007, the School District had \$115.5 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net increase (including additions, disposals, and depreciation) of approximately \$5.3 million, or 4.8 percent, from last year.

	2007	2006
Land	\$ 3,377,000	\$ 3,377,000
Construction in progress	-	7,144,889
Buildings and building improvements	108,263,650	95,469,913
Buses and other vehicles	1,205,362	1,420,492
Furniture and equipment	2,681,413	2,834,994
Total capital assets	<u>\$ 115,527,425</u>	<u>\$ 110,247,288</u>

This year's additions of \$16.6 million included vehicles, technology, building renovations, and new school additions.

Northville Public Schools

Management's Discussion and Analysis (Continued)

Debt

At the end of this year, the School District had \$96.2 million in bonds outstanding versus \$103.2 million in the previous year - a change of 6.7 percent. Those bonds consisted of the following:

	2007	2006
General obligation bonds	<u>\$ 96,260,000</u>	<u>\$ 103,215,000</u>

The School District's Moody's rating on school bond fund qualified bonds is Aa3, and the S&P rating is AA-. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. The School District's outstanding qualified general obligation debt of \$96.2 million is significantly below this \$390 million statutorily imposed limit.

Other obligations include accrued vacation pay, sick leave, and "incurred but not yet reported" health care claims. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2007/2008 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2007 fiscal year is 25 percent of the February 2007 and 75 percent of the September 2007 student counts. The 2007/2008 budget was adopted in June 2007, based on an estimate of students that will be enrolled in September 2007. Approximately 79 percent of total General Fund revenue is from the foundation allowance. The foundation allowance is estimated to be same as the 2006/2007 foundation, though the State School Aid Bill has not yet been adopted. Under state law, the School District cannot assess additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2007-2008 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2007-2008 budget. Once the final student count and related per pupil funding is validated, state law requires the School District to amend the budget if actual School District resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. If actual state revenues are less than their estimates, reduction to the per pupil funding allowance may be necessary.

Northville Public Schools

Statement of Net Assets June 30, 2007

	Governmental Activities
Assets	
Cash and investments (Note 3)	\$ 8,812,896
Receivables - Net (Note 4)	10,824,272
Inventories	256,302
Prepaid costs	1,357,601
Restricted assets (Note 8)	5,703,640
Capital assets - Net (Note 5)	<u>115,527,425</u>
Total assets	142,482,136
Liabilities	
Accounts payable	905,307
Accrued payroll and other liabilities	7,351,115
Deferred revenue (Note 4)	435,327
State aid anticipation note (Note 11)	10,000,000
Long-term liabilities (Note 7):	
Due within one year	7,170,000
Due in more than one year	<u>95,045,069</u>
Total liabilities	<u>120,906,818</u>
Net Assets	
Investment in capital assets - Net of related debt	19,341,709
Restricted:	
Debt service	985,816
Capital projects	246,266
Unrestricted	<u>1,001,527</u>
Total net assets	<u><u>\$ 21,575,318</u></u>

Northville Public Schools

Statement of Activities Year Ended June 30, 2007

	Program Revenues			Governmental Activities
	Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Assets
Functions/Programs				
Primary government - Governmental activities:				
Instruction	\$ 48,291,989	\$ 118,984	\$ 16,783,557	\$ (31,389,448)
Support services	30,099,950	-	-	(30,099,950)
Food services	2,490,203	2,139,392	176,917	(173,894)
Athletics	756,693	165,580	-	(591,113)
Community services	2,200,614	2,299,220	-	98,606
Interest on long-term debt	4,195,321	-	-	(4,195,321)
Total governmental activities	<u>\$ 88,034,770</u>	<u>\$ 4,723,176</u>	<u>\$ 16,960,474</u>	(66,351,120)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				9,100,426
Property taxes, levied for debt services				11,701,400
State aid not restricted to specific purposes				47,969,359
Interest and investment earnings				736,267
Other				484,284
Total general revenues				<u>69,991,736</u>
Change in Net Assets				3,640,616
Net Assets - Beginning of year				<u>17,934,702</u>
Net Assets - End of year				<u>\$ 21,575,318</u>

Northville Public Schools

Governmental Funds Balance Sheet June 30, 2007

	General Fund	Special Education Center Fund	2004 Building and Site Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 8,167,224	\$ -	\$ 5,703,640	\$ 645,672	\$ 14,516,536
Receivables - Net	9,935,236	501,618	-	387,418	10,824,272
Due from other funds	452,300	192,926	-	400,614	1,045,840
Inventories	163,916	-	-	92,386	256,302
Prepaid costs	1,357,601	-	-	-	1,357,601
Total assets	\$ 20,076,277	\$ 694,544	\$ 5,703,640	\$ 1,526,090	\$ 28,000,551
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 188,492	\$ 907	\$ 5,065	\$ 118,060	\$ 312,524
Accrued payroll and other liabilities	6,211,621	690,452	-	-	6,902,073
State aid anticipation note	10,000,000	-	-	-	10,000,000
Due to other funds	77,239	-	1,230,194	331,190	1,638,623
Deferred revenue (Note 4)	419,326	-	-	16,001	435,327
Total liabilities	16,896,678	691,359	1,235,259	465,251	19,288,547
Fund Balances					
Reserved:					
Inventories and prepaids	1,521,517	-	-	75,023	1,596,540
Debt service	-	-	-	985,816	985,816
Capital projects	-	-	4,468,381	-	4,468,381
Designated for future health care costs	150,000	-	-	-	150,000
Undesignated, reported in:					
General Fund	1,508,082	-	-	-	1,508,082
Special Revenue Funds	-	3,185	-	-	3,185
Total fund balances	3,179,599	3,185	4,468,381	1,060,839	8,712,004
Total liabilities and fund balances	\$ 20,076,277	\$ 694,544	\$ 5,703,640	\$ 1,526,090	\$ 28,000,551

Northville Public Schools

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets Year Ended June 30, 2007

Fund Balance - Total Governmental Funds \$ 8,712,004

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities
are not financial resources and are not
reported in the governmental funds:

Cost of capital assets	\$ 171,500,519	
Accumulated depreciation	<u>(55,973,094)</u>	115,527,425

Long-term liabilities are not due and payable in
the current period and are not
reported in the governmental funds:

Bonds payable including bond premium	(99,958,789)
Compensated absences/IBNR for self-insurance	(2,256,280)

Accrued interest payable is not included as a
liability in governmental funds

(449,042)

Net Assets - Governmental Activities **\$ 21,575,318**

Northville Public Schools

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2007

	General Fund	Special Education Center Fund	2004 Building and Site Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue					
Local sources	\$ 9,995,067	\$ -	\$ 265,148	\$ 16,485,338	\$ 26,745,553
State sources	49,888,807	3,607,471	-	66,930	53,563,208
Federal sources	1,349,575	-	-	176,917	1,526,492
Interdistrict sources	835,592	8,999,981	-	4,560	9,840,133
Total revenue	62,069,041	12,607,452	265,148	16,733,745	91,675,386
Expenditures					
Current:					
Instruction	39,266,207	-	-	-	39,266,207
Support services	22,880,166	-	-	-	22,880,166
Community services	-	-	-	2,200,614	2,200,614
Food service	-	-	-	2,365,476	2,365,476
Athletics	-	-	-	756,693	756,693
Special education:					
Instruction	-	7,825,091	-	-	7,825,091
Support services	-	3,545,692	-	-	3,545,692
Debt service:					
Principal	-	-	-	6,955,000	6,955,000
Interest	-	-	-	4,550,744	4,550,744
Other	-	-	-	162,901	162,901
Capital outlay	247,365	16,200	9,683,505	132,651	10,079,721
Total expenditures	62,393,738	11,386,983	9,683,505	17,124,079	100,588,305
Excess (Deficiency) of Revenue Over Expenditures	(324,697)	1,220,469	(9,418,357)	(390,334)	(8,912,919)
Other Financing Sources (Uses)					
Payment to escrow agent	-	-	-	48,360	48,360
Transfers in	1,396,578	-	-	710,454	2,107,032
Transfers out	(710,454)	(1,220,469)	-	(176,109)	(2,107,032)
Total other financing sources (uses)	686,124	(1,220,469)	-	582,705	48,360
Net Change in Fund Balances	361,427	-	(9,418,357)	192,371	(8,864,559)
Fund Balances - Beginning of year	2,818,172	3,185	13,886,738	868,468	17,576,563
Fund Balances - End of year	<u>\$ 3,179,599</u>	<u>\$ 3,185</u>	<u>\$ 4,468,381</u>	<u>\$ 1,060,839</u>	<u>\$ 8,712,004</u>

Northville Public Schools

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds **\$ (8,864,559)**

Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlay as expenditures;
in the statement of activities, these costs are allocated
over their estimated useful lives as depreciation:

Depreciation expense	\$ (4,157,571)	
Capitalized capital outlay	<u>9,437,708</u>	5,280,137

Underwriter's premium reported as revenue in the governmental funds and amortized on the statement of activities	304,921
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Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	50,502
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	6,955,000
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Compensated absences, as well as estimated self-insured liability claims, are recorded when earned in the statement of activities. In the current year, more was paid out than was earned	<u>(85,385)</u>
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Change in Net Assets of Governmental Activities **\$ 3,640,616**

Northville Public Schools

Fiduciary Fund Statement of Fiduciary Net Assets June 30, 2007

	Trust Funds	Student Activities Agency Fund
Assets		
Cash and investments	\$ 255,177	\$ 144,411
Due from General Fund	<u>-</u>	<u>596,019</u>
Total assets	255,177	<u><u>\$ 740,430</u></u>
Liabilities		
Accounts payable	1,550	\$ -
Due to General Fund	3,236	-
Due to student groups	<u>-</u>	<u>740,430</u>
Total liabilities	<u>4,786</u>	<u><u>\$ 740,430</u></u>
Net Assets - Reserved for scholarships	<u><u>\$ 250,391</u></u>	

Northville Public Schools

Fiduciary Fund Statement of Changes in Fiduciary Net Assets Year Ended June 30, 2007

	<u>Trust Funds</u>
Additions	
Interest	\$ 23,608
Contributions	10,681
Deductions - Scholarships awarded and other expenses	<u>10,250</u>
Change in Net Assets	24,039
Net Assets - Beginning of year	<u>226,352</u>
Net Assets - End of year	<u><u>\$ 250,391</u></u>

Northville Public Schools

Notes to Financial Statements June 30, 2007

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Northville Public Schools (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's district-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Note 1 - Summary of Significant Accounting Policies (Continued)

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide Financial Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the School District.

Northville Public Schools

Notes to Financial Statements June 30, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The School District reports the following major governmental funds:

General Fund - The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

Special Education Center Program Fund - The Special Education Center Program Fund is used to record all transactions associated with special education center programs administered by the School District on behalf of the county.

2004 Building and Site Capital Projects Fund - The 2004 Building and Site Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. The fund operates until the purpose for which it was created is accomplished.

Additionally, the School District reports the following fund types:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's Special Revenue Funds include food services, athletics, and the early childhood development center. Any operating deficit generated by these activities is the responsibility of the General Fund.

Debt Service Funds - Debt Service Funds are used to record tax, interest, other revenue for payment of interest, principal, and other expenditures on bonds outstanding.

Student Activity (Agency) Fund - The School District presently maintains a Student Activity Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Trust Funds - The School District maintains trust funds to account for funds entrusted to the School District for scholarship award programs and various school-related purposes.

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the School District's funds is generally allocated to each fund using a weighted average of balance for the principal.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on July 1 for approximately 50 percent of the taxes that are due on September 15 and December 1 for the remainder of the property taxes that are due on February 14. The final collection date is February 28, after which they are added to the county tax rolls.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both district-wide and fund financial statements.

Restricted Assets - The unspent bond proceeds and related interest of the Capital Projects Funds require amounts to be set aside for construction. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

Note I - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

Compensated Absences - The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated vacation and sick leave benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications - Comparative data is not included in the School District's financial statements.

Northville Public Schools

Notes to Financial Statements June 30, 2007

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. The budget was amended during the year to account for additional revenue due to greater special education funding. Expenditures were increased due to greater general education and special education salaries, utilities, transportation salaries, and legal costs. Reductions took place in technology and curriculum salary, operations repairs, and alternative education.

Encumbrance accounting is employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. As a result, fund balance has not been reserved.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the School District incurred expenditures in the General Fund which were in excess of the amounts budgeted, as follows:

	Budget	Actual
General Fund:		
Added needs	\$ 5,353,263	\$ 5,382,241
Capital outlay	240,000	247,365
Other	10,000	17,510

Added needs exceeded budgeted amounts by \$28,978, which was .5 percent of the budget. Capital outlay exceeded the budget by \$7,365 out of the total \$240,000 budgeted. Other than these, no major account groupings were under budget.

Capital Projects Fund Compliance - The 2004 Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code.

Note 3 - Deposits and Investments

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The School District has designated two banks for the deposit of its funds.

The investment policy adopted by the board in accordance with state statutes has authorized investment in bonds and securities of the United States government, bank accounts, CDs, and all other investments as noted by the state statutory authority as listed above.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's policy for custodial credit risk states custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law, and by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the School District will do business using the criteria established in the investment policy. The School District does not have investment with custodial credit risk.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities. The School District's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

Northville Public Schools

Notes to Financial Statements June 30, 2007

Note 3 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

At year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pool	\$ 15,066,035	AAAm	S&P
Mutual fund	165,933	Not rated	

Concentration of Credit Risk - The School District places no limit on the amount the School District may invest in any one issuer.

Foreign Currency Risk - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value, as a result of changes in foreign currency exchange rates. State law and the School District's policy prohibit investment in foreign currency.

Note 4 - Receivables

Receivables as of year end for the School District's individual major funds and the nonmajor funds in the aggregate are as follows:

	General Fund	Special Education Center Fund	Nonmajor and Other Funds	Total
Receivables:				
Taxes	\$ 510,670	\$ -	\$ 365,152	\$ 875,822
Accounts	33,033	-	22,266	55,299
Intergovernmental	9,391,533	501,618	-	9,893,151
Net receivables	<u>\$ 9,935,236</u>	<u>\$ 501,618</u>	<u>\$ 387,418</u>	<u>\$ 10,824,272</u>

Northville Public Schools

Notes to Financial Statements June 30, 2007

Note 4 - Receivables (Continued)

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Payment received prior to meeting all eligibility requirements	\$ -	\$ 435,327

Note 5 - Capital Assets

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
Capital assets not being depreciated:				
Land	\$ 3,377,000	\$ -	\$ -	\$ 3,377,000
Construction in process	7,144,889	-	(7,144,889)	-
Capital assets being depreciated:				
Building and building improvements	126,166,982	15,884,860	-	142,051,842
Buses and other vehicles	4,210,296	67,100	(116,258)	4,161,138
Furniture and equipment	21,279,902	630,637	-	21,910,539
Subtotal	151,657,180	16,582,597	(116,258)	168,123,519
Accumulated depreciation:				
Building and building improvements	30,697,069	3,091,123	-	33,788,192
Buses and other vehicles	2,789,804	282,230	(116,258)	2,955,776
Furniture and equipment	18,444,908	784,218	-	19,229,126
Subtotal	51,931,781	4,157,571	(116,258)	55,973,094
Net capital assets being depreciated	99,725,399	12,425,026	-	112,150,425
Net governmental capital assets	\$ 110,247,288	\$ 12,425,026	\$ (7,144,889)	\$ 115,527,425

Northville Public Schools

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to activities of the School District as follows:

Governmental activities:

Instruction	\$ 498,909
Support services	3,533,935
Food services	<u>124,727</u>
Total governmental activities	<u>\$ 4,157,571</u>

Construction Commitments - The School District has active construction projects at year end including the 2004 bond issue. At year end, the School District's commitment with contractors is as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
2004 bond issue	\$ 33,746,298	\$ 4,468,381

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From			Total
	General Fund	2004 Building and Site Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 452,300	\$ -	\$ 452,300
Trust and Agency	-	592,783	-	592,783
Special Education Center Program	-	-	192,926	192,926
Nonmajor governmental funds	<u>77,239</u>	<u>185,111</u>	<u>138,264</u>	<u>400,614</u>
Total	<u>\$ 77,239</u>	<u>\$ 1,230,194</u>	<u>\$ 331,190</u>	<u>\$ 1,638,623</u>

Northville Public Schools

Notes to Financial Statements June 30, 2007

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund balances represent routine and temporary cash flow assistance from the General Fund until amounts are transferred from fund bank accounts.

Interfund Transfers

	Transfers Out			Total
	General Fund	Special Education Center	Other Governmental Funds	
Transfers in:				
General Fund	\$ -	\$ 1,220,469	\$ 176,109	\$ 1,396,578
Other governmental funds	710,454	-	-	710,454
Total	<u>\$ 710,454</u>	<u>\$ 1,220,469</u>	<u>\$ 176,109</u>	<u>\$ 2,107,032</u>

Transfers provided funding for special education and subsidized operations in the Athletics and Food Services Funds.

Note 7 - Long-term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences and certain risk liabilities.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds	\$ 103,215,000	\$ -	\$ 6,955,000	\$ 96,260,000	\$ 7,170,000
Premium	4,003,710	-	304,921	3,698,789	-
Other obligations	2,170,895	7,443,890	7,358,505	2,256,280	-
Total governmental activities	<u>\$ 109,389,605</u>	<u>\$ 7,443,890</u>	<u>\$ 14,618,426</u>	<u>\$ 102,215,069</u>	<u>\$ 7,170,000</u>

Northville Public Schools

Notes to Financial Statements June 30, 2007

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above governmental bond and note obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2008	\$ 7,170,000	\$ 4,268,394	\$ 11,438,394
2009	6,775,000	4,043,894	10,818,894
2010	6,850,000	3,820,644	10,670,644
2011	6,925,000	3,560,894	10,485,894
2012	7,025,000	3,229,544	10,254,544
2013-2017	35,415,000	11,274,712	46,689,712
2018-2022	21,125,000	3,795,816	24,920,816
2023-2025	4,975,000	348,750	5,323,750
Total	<u>\$ 96,260,000</u>	<u>\$ 34,342,648</u>	<u>\$ 130,602,648</u>

Governmental Activities

General obligation bonds consist of the following:

1997 \$66,645,000 serial and term bonds due in one final payment of \$195,000 on May 1, 2008; interest at 4.90 percent	\$ 195,000
2001 \$4,630,000 serial and term bonds due in one final payment of \$800,000 on May 1, 2008; interest at 4.25 percent	800,000
2001 \$27,510,000 serial and term bonds due in annual installments of \$675,000 to \$1,625,000 through May 1, 2021; interest at 2.90 percent to 5.375 percent	11,925,000
2004 \$34,740,000 serial and term bonds due in annual installments of \$1,000,000 to \$2,500,000 through May 1, 2024; interest at 2.25 percent to 5.25 percent	32,525,000
2005 \$40,550,000 serial and term bonds due in annual installments of \$3,550,000 to \$3,700,000 through May 1, 2018; interest at 2.5 percent to 5 percent	40,550,000
2005B \$11,215,000 serial and term bonds due in annual installments of \$50,000 to \$1,525,000 through May 1, 2019; interest at 3 percent to 5 percent	10,265,000
Total bonded debt	<u>\$ 96,260,000</u>

Northville Public Schools

Notes to Financial Statements June 30, 2007

Note 7 - Long-term Debt (Continued)

Other governmental activities long-term obligations include the following:

Employee-compensated absences	\$ 1,756,817
Self-insurance	<u>499,463</u>
Total	<u>\$ 2,256,280</u>

Note 8 - Restricted Assets

The balances of the restricted asset accounts are unspent bond proceeds and related interest in the amount of \$5,703,640.

Note 9 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District participates in the Metropolitan Association for Improved School Legislation (MAISL) risk pool for claims relating to property loss, torts, and errors and omissions; the School District is partially uninsured for health and dental claims.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Northville Public Schools

Notes to Financial Statements June 30, 2007

Note 9 - Risk Management (Continued)

For risk retention situations, the School District estimates the liability for health and dental claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the district-wide statements. Changes in the estimated liability for the past two fiscal years were as follows:

	2007	2006
Estimated liability - Beginning of year	\$ 528,991	\$ 706,186
Estimated claims incurred - Including changes in estimates	7,328,977	6,689,584
Claim payments	<u>7,358,505</u>	<u>6,866,779</u>
Estimated liability - End of year	<u>\$ 499,463</u>	<u>\$ 528,991</u>

Note 10 - Defined Benefit Pension Plan and Postemployment Benefits

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the system at P.O. Box 30171, Lansing, MI 48909-7671.

Funding Policy - Employer contributions to the MPERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 16.34 percent and 17.74 percent of the covered payroll to the plan for the periods from July 1, 2006 through September 30, 2006 and October 1, 2006 through June 30, 2007, respectively. The School District's contributions to the MPERS plan for the years ended June 30, 2007, 2006, and 2005 were \$8,463,915, \$7,129,987, and \$6,650,085, respectively.

Northville Public Schools

Notes to Financial Statements June 30, 2007

Note 10 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post-employment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

Note 11 - State Aid Anticipation Note

On August 20, 2006, Northville Public Schools borrowed \$10,000,000 in a state aid anticipation note. The note bears effective interest at 3.9381 percent and was due and paid on August 20, 2007. At June 30, 2007, Northville Public Schools has accrued interest of \$392,350 on this note.

Note 12 - Subsequent Events

On August 20, 2007, Northville Public Schools borrowed \$10,000,000 in a state aid anticipation note. The note is due August 20, 2008.

Required Supplemental Information

Northville Public Schools

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 10,450,518	\$ 10,432,318	\$ 9,995,067	\$ (437,251)
State sources	49,425,962	49,327,791	49,888,807	561,016
Federal sources	911,000	1,300,000	1,349,575	49,575
Interdistrict sources	665,000	885,000	835,592	(49,408)
Total revenue	61,452,480	61,945,109	62,069,041	123,932
Expenditures - Current				
Instruction:				
Basic programs	34,206,587	34,203,632	33,883,966	(319,666)
Added needs	4,835,737	5,353,263	5,382,241	28,978
Support services:				
Pupil	3,335,252	3,596,560	3,446,122	(150,438)
Instructional staff	2,421,254	2,390,563	2,324,083	(66,480)
General administration	1,156,467	1,243,000	1,242,047	(953)
School administration	3,596,207	3,700,286	3,624,571	(75,715)
Business services	1,109,388	1,072,954	1,072,423	(531)
Transportation and maintenance	10,330,126	10,055,792	10,044,185	(11,607)
Central staff	1,047,313	1,114,440	1,109,225	(5,215)
Other	-	10,000	17,510	7,510
Capital outlay	170,000	240,000	247,365	7,365
Total expenditures	62,208,331	62,980,490	62,393,738	(586,752)
Other Financing Sources (Uses)				
Transfers in	1,450,000	1,628,000	1,396,578	(231,422)
Transfers out	(630,000)	(672,520)	(710,454)	(37,934)
Total other financing sources (uses)	820,000	955,480	686,124	(269,356)
Net Change in Fund Balance	64,149	(79,901)	361,427	441,328
Fund Balance - July 1, 2006	2,818,172	2,818,172	2,818,172	(1,402,764)
Fund Balance - June 30, 2007	<u>\$ 2,882,321</u>	<u>\$ 2,738,271</u>	<u>\$ 3,179,599</u>	<u>\$ 441,328</u>

Northville Public Schools

Required Supplemental Information Budgetary Comparison Schedule - Special Education Center Fund Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
State sources	\$ 3,700,065	\$ 3,700,065	\$ 3,607,471	\$ (92,594)
Interdistrict sources	<u>9,514,452</u>	<u>9,514,452</u>	<u>8,999,981</u>	<u>(514,471)</u>
Total revenue	13,214,517	13,214,517	12,607,452	(607,065)
Expenditures - Current - Special education	<u>13,214,517</u>	<u>13,214,517</u>	<u>12,607,452</u>	<u>(607,065)</u>
Net Change in Fund Balance	-	-	-	-
Fund Balance - July 1, 2006	<u>3,262</u>	<u>3,262</u>	<u>3,185</u>	<u>(77)</u>
Fund Balance - June 30, 2007	<u><u>\$ 3,262</u></u>	<u><u>\$ 3,262</u></u>	<u><u>\$ 3,185</u></u>	<u><u>\$ (77)</u></u>

Other Supplemental Information

Northville Public Schools

	Special Revenue Funds			Debt Service	
			Early Childhood Development Center	1997	2001
	Food Services	Athletics			
Assets					
Cash and investments	\$ 3,810	\$ 2,193	\$ 1,762	\$ 261,803	\$ 204,189
Receivables - Net:					
Taxes	-	-	-	125,107	66,077
Accounts	20,295	-	1,971	-	-
Due from other funds	33,714	12,664	58,383	159,346	-
Inventories	92,386	-	-	-	-
Total assets	<u>\$ 150,205</u>	<u>\$ 14,857</u>	<u>\$ 62,116</u>	<u>\$ 546,256</u>	<u>\$ 270,266</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 44,559	\$ 14,857	\$ -	\$ -	\$ -
Due to other funds	76,738	-	-	-	189,509
Deferred revenue	16,001	-	-	-	-
Total liabilities	137,298	14,857	-	-	189,509
Fund Balances					
Reserved - Inventories	12,907	-	-	-	-
Unreserved:					
Designated for debt service	-	-	-	546,256	80,757
Undesignated, reported in Special Revenue Funds	-	-	62,116	-	-
Total fund balances	12,907	-	62,116	546,256	80,757
Total liabilities and fund balances	<u>\$ 150,205</u>	<u>\$ 14,857</u>	<u>\$ 62,116</u>	<u>\$ 546,256</u>	<u>\$ 270,266</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007**

Funds					Capital Projects Fund
2001-2002	2004	2005 Refunding	2005B Refunding	2001 Building and Site	Total
\$ 66,747	\$ 43,876	\$ 45,093	\$ 16,199	\$ -	\$ 645,672
24,171	78,421	71,376	-	-	365,152
-	-	-	-	-	22,266
-	33,438	-	44,425	58,644	400,614
-	-	-	-	-	92,386
\$ 90,918	\$ 155,735	\$ 116,469	\$ 60,624	\$ 58,644	\$ 1,526,090
\$ -	\$ -	\$ -	\$ -	\$ 58,644	\$ 118,060
3,671	-	61,272	-	-	331,190
-	-	-	-	-	16,001
3,671	-	61,272	-	58,644	465,251
-	-	-	-	-	12,907
87,247	155,735	55,197	60,624	-	985,816
-	-	-	-	-	62,116
87,247	155,735	55,197	60,624	-	1,060,839
\$ 90,918	\$ 155,735	\$ 116,469	\$ 60,624	\$ 58,644	\$ 1,526,090

Northville Public Schools

	Special Revenue Funds			Debt Service	
			Early Childhood Development Center	1997	2001
Food Services	Athletics				
Revenue					
Local	\$ 2,139,392	\$ 165,580	\$ 2,299,220	\$ 4,093,503	\$ 2,139,754
State	66,930	-	-	-	-
Federal	176,917	-	-	-	-
Interdistrict	-	-	4,560	-	-
Total revenue	2,383,239	165,580	2,303,780	4,093,503	2,139,754
Expenditures					
Current:					
Community services	-	-	2,200,614	-	-
Food services	2,365,476	-	-	-	-
Athletics	-	756,693	-	-	-
Debt service:					
Principal	-	-	-	3,750,000	1,475,000
Interest	-	-	-	187,875	590,619
Other	-	-	-	42,736	68,584
Capital outlay	24,225	-	-	-	-
Total expenditures	2,389,701	756,693	2,200,614	3,980,611	2,134,203
Excess of Revenue Over (Under) Expenditures	(6,462)	(591,113)	103,166	112,892	5,551
Other Financing Sources (Uses)					
Payment to escrow agent	-	-	-	-	48,360
Transfers in	43,714	666,740	-	-	-
Transfers out	-	(75,627)	(100,482)	-	-
Total other financing sources (uses)	43,714	591,113	(100,482)	-	48,360
Net Change in Fund Balances	37,252	-	2,684	112,892	53,911
Fund Balances (Deficit) -					
Beginning of year	(24,345)	-	59,432	433,364	26,846
Fund Balances (Deficit) -					
End of year	<u>\$ 12,907</u>	<u>\$ -</u>	<u>\$ 62,116</u>	<u>\$ 546,256</u>	<u>\$ 80,757</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances (Deficit)
Nonmajor Governmental Funds
Year Ended June 30, 2007

Funds					Capital Projects Fund
2001-2002	2004	2005 Refunding	2005 Refunding	2001 Building and Site	Total
\$ 787,083	\$ 2,526,835	\$ 1,793,165	\$ 536,222	\$ 4,584	\$ 16,485,338
-	-	-	-	-	66,930
-	-	-	-	-	176,917
-	-	-	-	-	4,560
787,083	2,526,835	1,793,165	536,222	4,584	16,733,745
-	-	-	-	-	2,200,614
-	-	-	-	-	2,365,476
-	-	-	-	-	756,693
705,000	975,000	-	50,000	-	6,955,000
62,200	1,469,775	1,763,000	477,275	-	4,550,744
7,949	24,064	14,448	5,120	-	162,901
-	-	-	-	108,426	132,651
775,149	2,468,839	1,777,448	532,395	108,426	17,124,079
11,934	57,996	15,717	3,827	(103,842)	(390,334)
-	-	-	-	-	48,360
-	-	-	-	-	710,454
-	-	-	-	-	(176,109)
-	-	-	-	-	582,705
11,934	57,996	15,717	3,827	(103,842)	192,371
75,313	97,739	39,480	56,797	103,842	868,468
<u>\$ 87,247</u>	<u>\$ 155,735</u>	<u>\$ 55,197</u>	<u>\$ 60,624</u>	<u>\$ -</u>	<u>\$ 1,060,839</u>

Northville Public Schools

	1997 Debt	2001 Refunding	2001
June 30	Principal	Principal	Principal
2008	\$ 195,000	\$ 800,000	\$ 1,575,000
2009	-	-	1,600,000
2010	-	-	1,600,000
2011	-	-	1,600,000
2012	-	-	1,625,000
2013	-	-	675,000
2014	-	-	-
2015	-	-	-
2016	-	-	-
2017	-	-	-
2018	-	-	-
2019	-	-	-
2020	-	-	1,625,000
2021	-	-	1,625,000
2022	-	-	-
2023	-	-	-
2024	-	-	-
2025	-	-	-
2026	-	-	-
	-	-	-
Total	<u>\$ 195,000</u>	<u>\$ 800,000</u>	<u>\$ 11,925,000</u>
Principal payments due	May 1	May 1	May 1
Interest payments due	May 1 and November 1	May 1 and November 1	May 1 and November 1
Interest rate	4.55% to 5.35%	4.0% to 4.25%	2.9% to 5.375%
Original issue	<u>\$ 66,645,000</u>	<u>\$ 4,630,000</u>	<u>\$ 27,510,000</u>

Other Supplemental Information
Schedule of Bonded Indebtedness
Year Ended June 30, 2007

2004	2005 Refunding	2005B Refunding
Principal	Principal	Principal
\$ 1,000,000	\$ 3,550,000	\$ 50,000
1,425,000	3,700,000	50,000
1,500,000	3,700,000	50,000
1,575,000	3,700,000	50,000
1,650,000	3,700,000	50,000
1,725,000	3,700,000	890,000
1,775,000	3,700,000	1,500,000
1,850,000	3,700,000	1,525,000
1,925,000	3,700,000	1,525,000
2,000,000	3,700,000	1,525,000
2,075,000	3,700,000	1,525,000
2,150,000	-	1,525,000
2,225,000	-	-
2,300,000	-	-
2,375,000	-	-
2,475,000	-	-
2,500,000	-	-
-	-	-
-	-	-
-	-	-
<u>\$ 32,525,000</u>	<u>\$ 40,550,000</u>	<u>\$ 10,265,000</u>
May 1	May 1	May 1
May 1 and November 1	May 1 and November 1	May 1 and November 1
2.25% to 5.25%	2.5% to 5%	3% to 5%
<u>\$ 34,740,000</u>	<u>\$ 40,550,000</u>	<u>\$ 11,215,000</u>

Northville Public Schools

**Federal Awards
Supplemental Information
June 30, 2007**

Northville Public Schools

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Independent Auditor's Report

To the Board of Education
Northville Public Schools

We have audited the financial statements that collectively comprise Northville Public Schools' basic financial statements for the year ended June 30, 2007 and have issued our report thereon dated July 27, 2007. Those basic financial statements are the responsibility of the management of Northville Public Schools. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Northville Public Schools taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

July 27, 2007



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Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Board of Education
Northville Public Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northville Public Schools as of and for the year ended June 30, 2007, which collectively comprise Northville Public Schools' basic financial statements, and have issued our report thereon dated July 27, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northville Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northville Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Northville Public Schools' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

To the Board of Education
Northville Public Schools

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northville Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

July 27, 2007



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Report on Compliance with Requirements Applicable to Each
Major Program and on Internal Control Over Compliance in
Accordance with OMB Circular A-133

To the Board of Education
Northville Public Schools

Compliance

We have audited the compliance of Northville Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. The major federal programs of Northville Public Schools are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Northville Public Schools' management. Our responsibility is to express an opinion on Northville Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

An audit includes examining, on a test basis, evidence about Northville Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Northville Public Schools' compliance with those requirements.

In our opinion, Northville Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

To the Board of Education
Northville Public Schools

Internal Control Over Compliance

The management of Northville Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Northville Public Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement for a major program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a major federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement for a major program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance that is material to a type of compliance requirement for a major program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance and its operation that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

July 27, 2007

Northville Public Schools

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures
Clusters:			
Child Nutrition Cluster - U.S. Department of Agriculture - Passed through the Michigan Department of Education - National School Lunch Program:			
2006-2007	10.555	\$ 141,425	\$ -
2005-2006		<u>142,651</u>	<u>142,651</u>
Total Child Nutrition Cluster		284,076	142,651
Special Education Cluster - U.S. Department of Education - Passed through the Wayne County ISD:			
IDEA:	84.027		
Flowthrough Project - FY 07 funding		576,800	-
Flowthrough Project - FY 06 funding		555,350	555,350
WCCP Flowthrough Project - FY 07 funding		373,478	-
WCCP Flowthrough Project - FY 06 funding		352,350	352,350
Transition Services - FY 07 funding		4,918	-
Transition Services - FY 06 funding		<u>5,000</u>	<u>5,000</u>
Total IDEA		1,867,896	912,700
Preschool Incentive:	84.173		
FY 07 funding		69,642	-
FY 06 funding		<u>54,694</u>	<u>54,694</u>
Total Preschool Incentive		<u>124,336</u>	<u>54,694</u>
Total Special Education Cluster		1,992,232	967,394
Other federal awards:			
U.S. Department of Education:			
Passed through the Michigan Department of Education:			
Title V - Part A - Project Number 060250 0607	84.298	1,419	-
Title II - Part A:	84.367		
Project Number 060520 0607		109,185	-
Project Number 060520 0506 Carryover		14,078	-
Project Number 060520 0506		<u>110,390</u>	<u>84,460</u>
Total Title II - Part A		233,653	84,460

Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Accrued Revenue at July 1, 2006	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued Revenue at June 30, 2007
\$ - 26,767	\$ - -	\$ 132,885 26,767	\$ 141,425 -	\$ 8,540 -
26,767	-	159,652	141,425	8,540
-	-	519,120	551,324	32,204
55,535	-	55,535	-	-
-	-	330,298	373,478	43,180
35,235	-	35,235	-	-
-	-	-	4,918	4,918
5,000	-	5,000	-	-
95,770	-	945,188	929,720	80,302
-	-	53,326	58,566	5,240
5,469	-	5,469	-	-
5,469	-	58,795	58,566	5,240
101,239	-	1,003,983	988,286	85,542
-	-	-	-	-
-	-	56,872	66,687	9,815
-	-	14,078	14,078	-
24,479	-	36,331	11,852	-
24,479	-	107,281	92,617	9,815

Northville Public Schools

Program Title/Project Number/Subrecipient Name	CFDA Number	Approved Awards Amount	(Memo Only) Prior Year Expenditures
Other federal awards (Continued):			
U.S. Department of Education (Continued):			
Passed through the Michigan Department of Education (Continued):			
Safe and Drug-free Schools and Communities - Project Number 062860 0607	84.186	\$ 14,340	\$ -
Title III: English Language Acquisition:			
Project Number 060580 0607	84.365a	13,667	-
Project Number 060580 0506 Carryover		17	-
Project Number 060580 0506		<u>22,942</u>	<u>19,957</u>
Total Title III: English Language Acquisition		36,626	19,957
Elementary and Secondary Hurricane Relief for Displaced Students - Project Number 064120	84.938C	<u>248</u>	<u>-</u>
Total Michigan Department of Education		286,286	104,417
Passed through Wayne County ISD - Medicaid Transportation	93.778	1,261	-
U.S. Department of Justice - COPS 2005 Secure Our Schools - Grant #2005CKWX0559	16.710	257,482	9,370
U.S. Department of Agriculture - Passed through the Michigan Department of Education - Food Distribution - Entitlement commodities - 2006-2007	10.550	<u>35,492</u>	<u>-</u>
Total federal awards		<u><u>\$ 2,856,829</u></u>	<u><u>\$ 1,223,832</u></u>

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2007

Accrued Revenue at July 1, 2006	Adjustments and Transfers	Federal Funds/ Payments In-kind Received	Expenditures	Accrued Revenue at June 30, 2007
\$ -	\$ -	\$ 14,340	\$ 14,340	\$ -
-	-	5,153	5,709	556
-	-	17	17	-
<u>13,902</u>	<u>-</u>	<u>16,887</u>	<u>2,985</u>	<u>-</u>
13,902	-	22,057	8,711	556
-	-	248	248	-
38,381	-	143,926	115,916	10,371
-	-	1,261	1,261	-
9,370	-	253,482	244,112	-
<u>-</u>	<u>-</u>	<u>35,492</u>	<u>35,492</u>	<u>-</u>
<u><u>\$ 175,757</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,597,796</u></u>	<u><u>\$ 1,526,492</u></u>	<u><u>\$ 104,453</u></u>

Northville Public Schools

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Northville Public Schools and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Noncash Assistance

The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

Commodities - Inventory values are based on USDA value for donated foods commodities (per food scoop). Reported commodity receipt values were computed using the recipient entitlement balance report and other records. Spoilage or pilferage, if any, is included in expenditures.

Note 3 - Grant Section Auditor's Report

Management has utilized Form R-7120 in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

Northville Public Schools

Schedule of Findings and Questioned Costs Year Ended June 30, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
	Special Education Cluster:
84.027	IDEA
84.173	Preschool Incentive

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Northville Public Schools

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None

September 7, 2007

Board of Education
Northville Public Schools
501 West Main Street
Northville, MI 48167

Dear Board Members:

We recently completed our audit of the basic financial statements of Northville Public Schools for the year ended June 30, 2007. As a result of our audit, we have the following comments and recommendations for your review and consideration.

PHYSICAL INVENTORY

During the year-end audit, we noted an inventory account that was not updated from the previous years balance. The updated physical inventory was not sent to the business office until it was requested. The difference was immaterial to the financial statements; however, because a system does not appear to be in place to ensure the balance is updated a control deficiency exists. A review of the physical inventory process and subsequent communication should be completed.

FUND BALANCE

Especially in an era of continued uncertainty in the level of funding provided to schools, we feel that it is important for the District to maintain an appropriate level of fund equity. We believe that the benefit of the District maintaining an appropriate amount of fund equity allows the District the ability to maintain its current level of programs, while being able to meet unforeseen circumstances, like the implementation of State Aid pro-ration and continued uncertainties with funding provided by the state. This becomes especially important due to the funding caps imposed by school finance reform, increasing retirement and other costs, and cash flow needs due to the fact about 18% of the District's state aid is received after the school year has ended, as well as concerns over the financial health of the school aid fund in 2007-2008.

During the 2006-2007 school year, the District's General Fund revenues exceeded expenditures by approximately \$361,000. This resulted in increasing the General Fund equity to \$3,179,599 at June 30, 2007. Fund balance goals are often stated in terms of a percentage of total expenditures. As a point of reference, the statewide average for school districts at June 30, 2006 (excluding Detroit) is approximately 13.05 percent of expenditures. The school district's fund equity percentage is 5 percent and equals approximately 14 weeks of operation. Clearly, as the district moves through 2007/2008 it will face unprecedented challenges in this area given the funding plan put in place by the state coupled with increasing fringe benefit costs.

BOND FUND AUDIT REQUIREMENTS

The Michigan Department of Treasury Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan (The Audit Guide) was revised in August 2006. In addition to the typical "capital projects" type bonds issued by a school district, this Audit Guide also applies to sinking funds and the "Durant Bonds" issued by most non-plaintiff districts in the *Durant Case*.

This separate audit includes:

- Use of generally accepted auditing standards and generally accepted auditing standards to account for and audit each fund
- Review of investments for allowability
- Review of expenditures for allowability
- Use of competitive bidding
- For a bond series, an audit is required for each series
- "Closeout Audit" triggered by certification of substantial completion (AIA-G704)
- "Closeout Audit" must be completed within 120 days of issuance of AIA-G704

The Michigan Department of Treasury allows several alternatives for reporting the audit results. Your District's financial statements include the required annual financial statement disclosures. We will work with the District and the Department of Treasury to issue the 2004 Building and Site "closeout" report when the project is complete.

ARBITRAGE REGULATIONS

Arbitrage is an important element of bond management and must continue to be evaluated annually. Essentially, arbitrage is the "benefit" that the District receives from issuing bonds at a tax exempt rate and investing the proceeds at a taxable rate. The IRS has established limits on the amount of "interest spread" that the District can earn before amounts must be rebated to the Federal Government. Amounts in excess of the limit become the arbitrage liability. Over the last few years investment interest rates have risen. In general, this fact increases the size of the potential arbitrage liability related to bond issues. The law specifies that each debt issue entered into after August 31, 1986, is subject to the rebate of arbitrage interest earned to the federal government. In the past, Northville Public Schools did not have a necessary arbitrage liability; however, we recommend that you continue to work closely with your bond counsel to carefully define the assumptions to be used in comparing these alternative rebate calculation methods and in completing the annual liability calculation.

STATE AID ISSUES

2006/2007

Almost since the Governor signed the 2006 State Aid Act into law it was unclear if school districts would receive the revenue promised. In January 2007 the Revenue Estimating Conference predicted that the School Aid Fund would be "short" \$224/pupil. Since that date the Governor and legislature worked on funding alternatives to prevent the projected cut from becoming a reality. In June 2007, as school was ending, they came to an agreement on several measures. The result of the measures, among many features, included the following:

- Foundation Allowance:
 - No pro-ration and the district did receive the promised \$210 increase in the base foundation allowance. Primary factors eliminating the requirement to pro-rate were securitization of future tobacco settlement proceeds and a credit generated from MPSERS.
- Categoricals:
 - The above actions taken also allowed the State to fully fund the categoricals promised in the 2006 State Aid Act legislation.
- Retirement Rate:
 - Legislation restructured the elements computing the MPSERS retirement rate creating a lower cost to the retirement system. The district paid in 17.74% established in last years state aid act amendments, but received a credit for the difference between the amounts paid in and the actual cost within the retirement system. This credit was essentially treated as resources available for state aid and was the principle element in eliminating the need for a pro-ration.

2007/2008

- Funding Levels
 - With 2006/2007 finally resolved, the Governor and Legislature have begun working on state budget issues for 2007/2008. The State's fiscal year does not begin until October 1, 2007. Now that they have replaced the Single Business Tax with the Michigan Business Tax, they are working on a series of cost/restructuring and revenue increase measures. Many of the cost measures and some of the revenue measures will likely impact School Districts and the School Aid Fund. It is likely the goal of the measures will be to add some stability in the cost of operations and in the revenue sources going into the School Aid Fund. Since the focus for the spring and summer has been on 2006/2007, there is little specific information on the level of school funding or the types of categoricals that will be put in place for 2007/2008.
- Retirement Rate:
 - As part of the changes made for 2006/2007, the 2007/2008 retirement rate was determined. The rate for the fiscal year beginning October 1, 2007 will be 16.72%.

As the legislation moves forward the specific implications for each district will become clearer. One thing is for sure, there will, once again, still be significant unknowns as the district begins its 2007/2008 school year.

FEDERAL PROGRAM EXPENDITURE DOCUMENTATION

Cash Management Change

For many years, the 30-day rule said a school district could request up to 30 days future cash needs when submitting a reimbursement request for federal grant funds. MDE recently sent a communication that beginning in the 2007 fiscal year, a school district can only request up to 3 days future cash needs and that the MEGS system now reflects this change. This can have a big impact on cash flow for District's that

relied on the 30-day rule. We want to ensure that school district administrators are aware of this change, as future audits will be following these revised rules.

Auditing Standards Continue to Change

Major and comprehensive changes were made to the auditing standards in 2006. These new auditing standards require significant changes in how audits are performed and how the results of the auditor's work are communicated to clients, bringing auditing rules for nonprofit organizations into closer alignment with the standards imposed on audits of public companies under Sarbanes-Oxley.

Some of these new standards became effective for audits of financial statements dated December 31, 2006 and after. As a result, auditors are required to comply with very specific rules related to the form, content, and extent of audit documentation, including more thorough documentation of auditing procedures and results. Other new guidelines affect the audit evidence that must be obtained before an auditor can consider an audit complete.

Auditors are required to more formally communicate matters they observe about their clients' accounting procedures and internal controls including any "significant deficiencies" in accounting procedures or internal controls that come to their attention. Significant deficiency is a defined term that includes any flaw creating more than a remote risk of errors in financial statements that could reasonably matter to a user of the statements. Auditors must now communicate these matters in writing to all individuals involved in overseeing strategic direction and accountability for operations, in addition to management.

The remainder of the new rules will become effective for audits of financial statements dated December 31, 2007 and later. These new rules, which are known collectively as the new Risk Assessment Standards, significantly change the procedures auditors must perform in all financial statement audits. Under these new rules, auditors will be required to:

- More thoroughly examine and evaluate clients' accounting processes and controls, including the overall control environment, key controls over significant transactions, and the quality of internal oversight of the financial reporting process
- More thoroughly assess and document conditions in clients' systems and processes that create risks of material misstatement in their financial statements and perform additional testing in response to these risks
- Design and perform more analytical tests of accounting and financial data
- Apply more stringent standards in identifying, assessing, and communicating internal control deficiencies
- Communicate more information about the results of the auditor's work to individuals involved in overseeing strategic direction and accountability for operations

As a practical effect of these new rules, auditors will need to make more detailed and specific requests for information from clients, particularly about processes and controls, and clients will need to do more work to be well prepared for their audits. The new rules will also require increased audit testing, more thorough auditing procedures and increased documentation that auditors must prepare and maintain.

Plante & Moran, PLLC began analyzing these new standards and incorporating the necessary changes into our audit process and tools more than a year ago. It is clear that the new rules will require us to perform more audit procedures than we have in the past. Over the next several months, our firm will begin to implement our new audit methodology and train our staff on these changes. Our goal is to have our staff trained and working with our clients to prepare for the transition to these new rules well in advance of the required implementation date.

As we move forward, we will be communicating with you regularly about matters that will affect your next financial statement audit. In addition, we plan to work with you during the upcoming year in a number of areas, including review and documentation of your internal accounting procedures and controls, to ensure a smooth transition to these new standards. We will be in contact with you in the near future to discuss these matters in more detail.

The primary objective of these new rules is to strengthen and enhance the independent audit of financial statements, including more thorough evaluation and information about your internal accounting and financial reporting processes and controls. We believe that these new rules and the additional communications you will receive from us about the results of our audit work will enhance the value you receive from your financial statement audit.

We would like to thank John Street and Millie Whitbeck, as well as all of the Northville's Public Schools personnel for their assistance during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Dennis J. Lesnau